Sales Tax Analysis –November 2019

Executive Summary

Sales tax is one of the most important revenue streams for the City, but it's also highly volatile and subject to risk. This analysis is intended to highlight the City's sales tax collections in comparison to its expected performance, which is the amount of recurring revenue received compared to the budget. The analysis may include some comparisons to the prior year, however, these comparisons are not necessarily an indication of expected performance. Prior year sales tax collections may contain confidential data known to the City that would be adjusted during the budget process. For this reason, the comparison of year-over-year data may not provide a complete picture of current performance.

Key Highlights

- November Collection:
    - Total collections are $4,752,350 which represents sales occurring in the month of September
    - This total includes approximately **$197,326** that is related to one-time collections and audit adjustments:
        - Positive audit adjustment: $40,049
        - One-time adjustments: $157,277
        - Net recurring collections: $4,555,024
- Recurring Sales Tax Performance
    - **Compared to Budget**
        - Current month: Up 4.2%
    - **Compared to Prior Year**
        - Current Month: Up 2.2%
- Total Sales Tax Performance (Includes one-time payments and audit adjustments)
    - **Compared to Prior Year:**
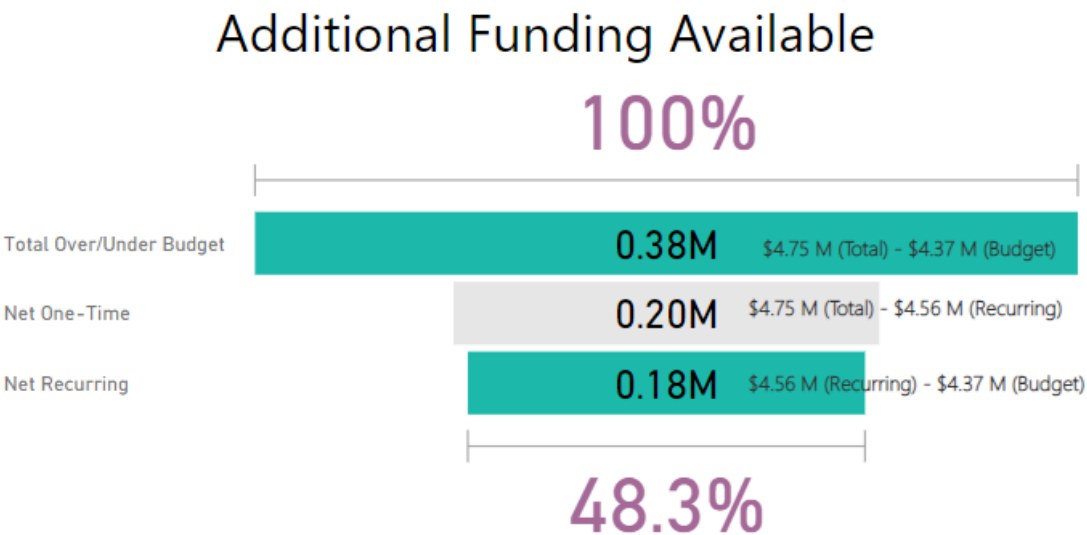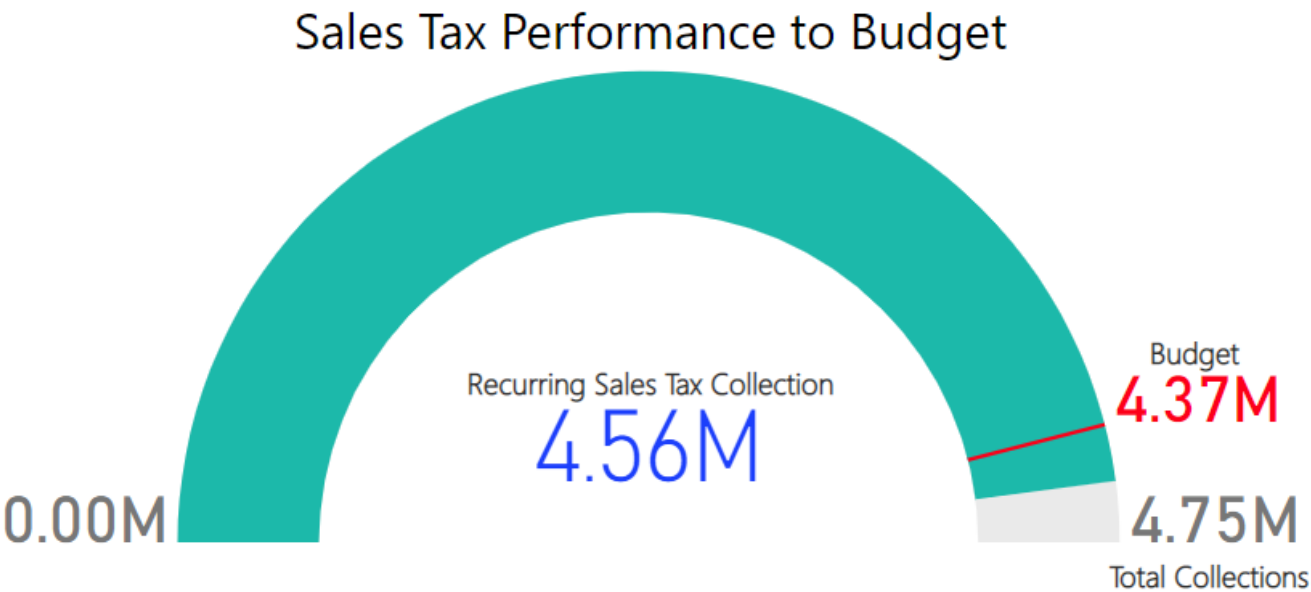   - Current Month: Down 4.1%

Summary of Performance

Quarter Label	Prior Actual	Original Budget	Current Actual	Audit Adjustments	One-Time Adjustments	Recurring Actual	Δ % Prior Fiscal Year	Δ % Recurring Actual/Budget	General Fund (75% of Total)	4A/4B (25% of Total)
Q1										
October	4,185,589	3,835,265	4,182,071	42,151	145,592	3,994,327	-0.1%	4.1%	3,136,553	1,045,518
November	4,955,867	4,370,890	4,752,350	40,049	157,277	4,555,024	-4.1%	4.2%	3,564,263	1,188,088
Total	9,141,456	8,206,155	8,934,421	82,200	302,869	8,549,351	-2.3%	4.2%	6,700,816	2,233,605
Total	9,141,456	8,206,155	8,934,421	82,200	302,869	8,549,351	-2.3%	4.2%	6,700,816	2,233,605

*The recurring actual sales tax is calculated by subtracting audit adjustments and one-time payments from the current actual.
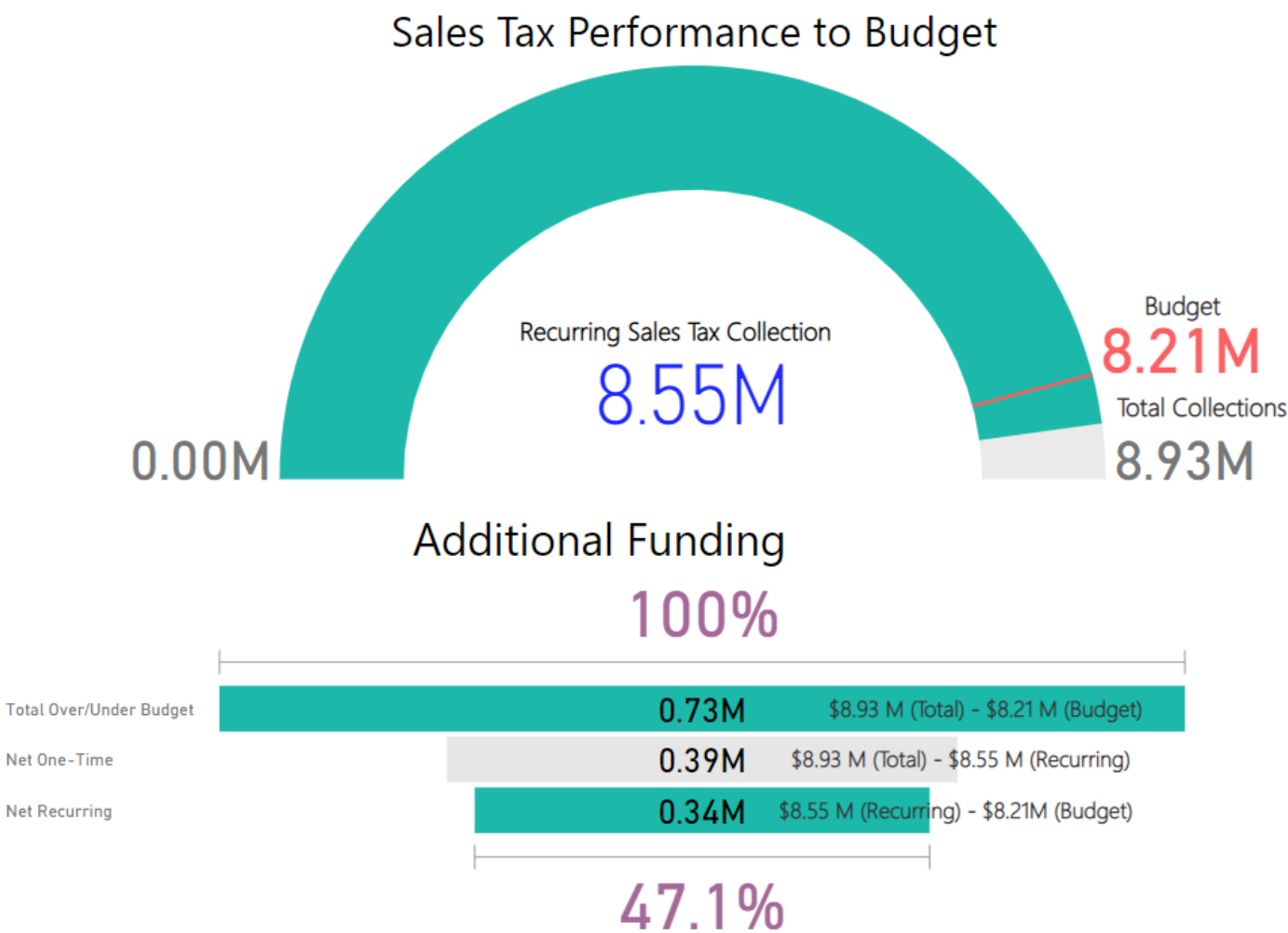
Current Month at a Glance

The graphs below indicate that total sales tax collections are $4.75M in November, with recurring sales tax collections of $4.56M. As a result, the City has approximately $0.38M more in total sales tax revenue when compared to the budgeted amount. The recurring sales tax is higher than the budget of $4.37M by $0.18M. One-time collections increased the revenue collected in November by $0.20M. It is important to note that one-time collections are not concentrated in any one sector, and that their distribution can and will vary from month to month. Recurring sales tax is an important measure for the City as it sustains recurring operations. Additional recurring revenue received over budget will be allocated in the following fiscal year's budget.

Sales Tax Performance to Budget

Recurring Sales Tax Collection
4.56M

Budget
4.37M

0.00M

4.75M
Total Collections

Additional Funding Available

100%

Total Over/Under Budget	0.38M	$4.75 M (Total) - $4.37 M (Budget)
Net One-Time	0.20M	$4.75 M (Total) - $4.56 M (Recurring)
Net Recurring	0.18M	$4.56 M (Recurring) - $4.37 M (Budget)

48.3%

Year-to-Date at a Glance

The graphs below indicate that total sales tax collections are $8.93M for the year, with recurring sales tax collections of $8.55M. As a result, the City has accumulated approximately $0.73M in additional sales tax revenue over the budgeted amount. The recurring sales tax is greater than the budget of $8.21M by $0.34M and $0.39M is one-time revenue from audit adjustments and one time payments. Recurring sales tax is an important measure for the City as it sustains recurring operations.

The City will accumulate and monitor excess sales tax revenue, and will develop a strategy for utilization of one time funds through the spring budget preparations. Additional recurring revenue received over budget will be built into the following fiscal year's budget in accordance with the Financial Management Policy Statements.

Sales Tax Performance to Budget

Recurring Sales Tax Collection
8.55M

0.00M

Budget
8.21M

Total Collections
8.93M

Additional Funding
100%

Total Over/Under Budget	0.73M	$8.93 M (Total) - $8.21 M (Budget)
Net One-Time	0.39M	$8.93 M (Total) - $8.55 M (Recurring)
Net Recurring	0.34M	$8.55 M (Recurring) - $8.21M (Budget)

47.1%

Monthly Payment Allocation by Sector

This chart shows the makeup of the month's payment by sectors. It <u>does not</u> reflect a comparison to the prior year's payment for the same period or year to date. The unadjusted total will not match the net payment allocated to the City.

For a monthly comparison to last year by sector, please see the written analysis below the chart.*

MTD Sector Waterfall
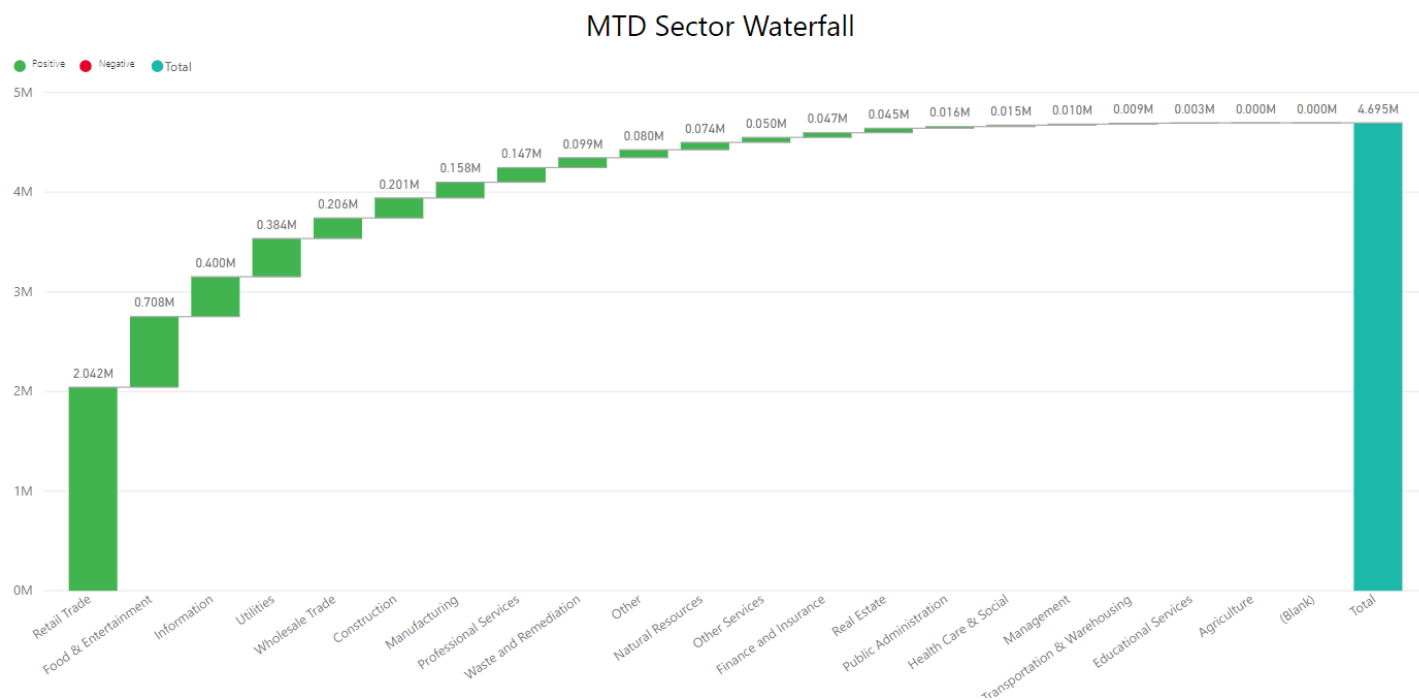
Monthly Analysis Compared to Prior Year

Retail: The Retail sector decreased by 4.26% when compared to the same period in the prior year. The decrease within this sector is driven by reduced collections within the Miscellaneous subsector related to the expiration of an incentive agreement, and a decrease within the Building Material & Garden Supplies subsector. Excluding one-time collections, the sector would have otherwise decreased by 4.63%. **One-time collections total $7,812.**

Food & Entertainment: The Food & Entertainment sector increased by 1.20% when compared to the same period in the prior year. This increase is driven by collections within the Restaurants & Food Services subsector. There were no one-time adjustments for this sector.

Wholesale Trade: The Wholesale Trade sector decreased by 2.04% when compared to the same period in the prior year. This decrease is a result of one-time collections in the Durable goods subsector in the prior year. There were no one-time adjustments for this sector.

Utilities: The Utility sector increased by 20.40% when compared to the same period in the prior year. The increase in this sector is driven by growth among energy retail companies and one-time collections. Excluding one-time collections, the sector would have otherwise increased by 1.14%. **One-time collections total $20,603.**

Manufacturing: The Manufacturing sector decreased by 3.75% when compared to the same period in the prior year. The decrease within the sector is primarily driven by a one-time collection in the Electrical Equipment subsector in the prior year. There were no one-time adjustments for this sector this month.

Information: The Information sector decreased by 12.44% when compared to the same period in the prior year. The decrease is driven by one-time collections within the Telecommunications subsector in the prior year. There were no one-time adjustments for the sector this month.

Natural Resources: The Natural Resources sector has decreased 56.15% when compared to the same period in the prior year. This is due to an audit refund within the Oil & Gas subsector. There were no one-time adjustments for this sector.

Construction: The Construction sector has decreased by 31.99% when compared to the same period in the prior year. This decrease is the result of a large one-time collection in the Building Construction subsector in the prior year. Excluding one-time collections, the sector would have otherwise decreased by 75.65%. **One-time collections total $128,862.**

All Other: All other sectors are experiencing a 13.89% decrease overall, when compared to the same period in the prior year There were no one-time adjustments for these sectors.

* The collections by sector information is directly from the Confidentiality Report received from the Texas Comptroller's Office. The numbers reflected in the Confidentiality Report are unadjusted and will not match the Net Collections that the Comptroller publishes. The Net Collections published publically include all tax payers, whereas the Confidentiality Report only includes tax payers that annually remit more than $5,000, and does not include the other adjustments made to the Net Allocation.

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Comparison to Other Cities

The top twenty cities' sales tax collections are up 2.1% for the month of November and 2.1% fiscal year to date.

In November, overall collections within Fort Bend County decreased by 0.6%. Sugar Land's collections for the month saw a decrease of 4.1%, with the city of Meadows Place seeing the highest decrease this month. Sugar Land accounts for the majority of collections in the county at 48.44% of all sales tax collections.

Year to date, Fort Bend County cities are down 0.3% compared to the prior year. Statewide, all Texas cities are up 2.7% for the month and 3.3% fiscal year to date.

Sales Tax Summary and Category Overview

City	Current_MTD	Prior_MTD	Δ % MTD	Current Fiscal YTD	Prior YTD	Δ % YTD
HOUSTON	60,105,995	59,748,678	0.6%	116,050,329	113,429,231	2.3%
SAN ANTONIO	33,051,253	31,552,749	4.7%	61,760,196	59,630,191	3.6%
DALLAS	25,924,232	27,783,918	-6.7%	47,135,562	51,706,626	-8.8%
AUSTIN	21,019,150	19,730,175	6.5%	39,983,744	38,221,200	4.6%
FORT WORTH	14,714,848	14,438,858	1.9%	28,013,043	27,198,109	3.0%
ARLINGTON	11,039,361	10,466,817	5.5%	20,468,093	19,061,010	7.4%
EL PASO	8,531,453	8,016,728	6.4%	16,122,717	15,179,685	6.2%
ROUND ROCK	8,425,070	7,176,989	17.4%	14,351,523	13,654,619	5.1%
FRISCO	8,241,018	7,887,283	4.5%	15,670,934	14,728,401	6.4%
PLANO	7,885,869	7,623,824	3.4%	14,313,125	14,037,514	2.0%
CORPUS CHRISTI	7,102,253	7,393,603	-3.9%	13,872,081	14,097,920	-1.6%
LUBBOCK	7,046,831	6,652,635	5.9%	13,401,600	12,539,128	6.9%
AMARILLO	7,018,879	7,082,898	-0.9%	13,527,368	13,385,455	1.1%
IRVING	6,997,158	6,370,891	9.8%	12,773,732	11,569,665	10.4%
MIDLAND	6,331,786	6,576,593	-3.7%	12,431,753	12,420,486	0.1%
ODESSA	6,201,343	6,252,398	-0.8%	12,126,754	12,228,268	-0.8%
MCALLEN	5,928,860	5,990,676	-1.0%	11,326,334	11,215,664	1.0%
GRAND PRAIRIE	5,567,991	5,533,356	0.6%	10,425,810	10,123,712	3.0%
MCKINNEY	5,504,085	4,859,750	13.3%	10,149,440	9,170,672	10.7%
SUGAR LAND	4,752,350	4,955,867	-4.1%	8,934,421	9,141,456	-2.3%
Total	**261,389,783**	**256,094,685**	**2.1%**	**492,838,559**	**482,739,011**	**2.1%**

All Texas Cities

All Texas Cities	All Current MTD	Prior_MTD	Δ % MTD	Current Fiscal YTD	Prior YTD	Δ % YTD
	550,477,405	535,777,817	2.7%	1,043,611,759	1,010,459,146	3.3%

Fort Bend County Major Cities

Fort Bend Cities	All Current MTD	Prior_MTD	Δ % MTD	Current Fiscal YTD	Prior YTD	Δ % YTD
Sugar Land	4,752,350	4,955,867	-4.1%	8,934,421	9,141,456	-2.3%
Rosenberg	1,742,706	1,772,854	-1.7%	3,354,636	3,493,716	-4.0%
Stafford	1,622,572	1,541,419	5.3%	3,051,930	2,910,118	4.9%
Missouri City	949,777	941,591	0.9%	1,779,973	1,759,806	1.1%
Richmond	631,586	526,021	20.1%	1,174,751	1,038,792	13.1%
Meadows Place	111,828	127,852	-12.5%	227,270	238,304	-4.6%
Total	**9,810,819**	**9,865,604**	**-0.6%**	**18,522,981**	**18,582,192**	**-0.3%**

Sales Tax Background

Understanding how the City develops the sales tax forecast is an important part of this publication. This year the sales tax forecast utilized a more conservative approach to forecasting. This method involves taking the current year's recurring collections through July, which is then annualized using the prior year's historical collection percentage. This year, the total recurring projection for year-end was set, with no increase, and assumes that the City will not receive any one-time collections.

Once developed, the sales tax budget is distributed across the months based on the percentage of collections that month would historically receive. It's important to understand that there are factors that can cause peaks and valleys in this distribution. These peaks and valleys are a direct result of the extremely volatile nature of actual collections. Actual historical collections can and do change as a result of the timing of the collection (i.e. when the business makes payment), the receipt of one-time collections, and audit adjustments, which can increase or decrease the actual collection. It's this volatility of the collections that make the comparison on a monthly basis a challenge. While sustained high or low monthly collections may signal a change in the trend, the individual monthly comparison will not provide a complete picture, and for this reason greater attention should be paid to the year-to-date collections and budget.

Because sales tax is such an important and volatile revenue stream for the City it is closely monitored and analyzed. When significant changes and trends are detected they are reported to management and City Council quickly. One of the most important indicators for sales tax performance is the total recurring sales tax collected compared to the budget. Recurring sales tax is a more stable revenue stream than total sales tax. The total sales tax received during the month is composed of both one-time, and recurring sources. By separating the two components the City is better able to compare performance, budget for the next year, and understand how much one-time funding will be available to support non-recurring needs.